GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:674
ANSWERED ON:12.05.2000
ECONOMIC REFORMS
RASA SINGH RAWAT;SHIVRAJ SINGH CHOUHAN

Will the Minister of FINANCE be pleased to state:

(a) the number of occasions when RBI has revised the interest rates of banks during the last three years;

(b) the extent to which the pace of economic reforms has been accelerated due to constant decline in the rate of interest; and

(c) the steps taken by the Government to ensure that each and every sector of the society is benefited through these economic reforms?

Answer

FINANCE MINISTER (SHRI YASHWANT SINHA)

(a), (b) and (c): A statement laid on the Table of the House

STATEMENT LAID ON THE TABLE OF THE LOK SABHA IN REPLY TO PARTS (a) TO (C) OF THE LOK SABHA STARRED QUESTION NO.674 FOR ANSWER ON 12TH MAY, 2000 RAISED BY PROF. RASA SINGH RAWAT AND SHRI SHIVRAJ SINGH CHOUHAN REGARDING ECONOMIC REFORMS

(a) With the rationalization and deregulation of interest rates, the Reserve Bank of India(RBI) has not been prescribing interest rates of banks except in the case of interest rate on saving deposits and export credit. The interest rate on saving deposits which was at 4.5 percent per annum since November 1994 was reduced by RBI to 4 percent on April 1, 2000.The interest rate on export credit was revised by RBI on twelve occassions during the last three years. In April 1997, the Bank Rate was reactivated as signaling and reference rate. During the last three years the Bank Ratewas revised by the Reserve Bank on nine occasions, including the latest reduction from 8 percent to 7 percent with effect from April 3, 2000.

(b) Though the aim has been to facilitate transition to a low interest rate regime, developments in financial markets both at home and abroad sometimes necessitate recourse to monetary policy measures, including hike in Bank Rate. Out of the nine occasions of Bank Rate revision cited above, on one occasion, i.e.on January 17, 1998, the Bank Rate was raised from 9 percent to 11 percent in response to the developments in the external environment. However, RBI subsequently reviewed the monetary and credit situation and the Bank Rate was reduced in phases to 9 percent with effect from April 29, 1998. Bank Rate was again reduced to 8 percent and 7 percent with effect from March 2, 1999 and April 3, 2000 respectively. Lower Bank Rate leads to lower cost of refinance, including export credit refinance, availed by banks from the Reserve Bank. Further, the reduction in the Prime Lending Rates(PLRs) of commercial banks following reduction in Bank Rate leads to lower cost of production and stimulates growth. As high economic growth depends on efficient functioning of financial markets and flexible interest rates, effective monetary management facilitaties the growth process.

(c) As a sustained and broad-based growth of agriculture is essential for alleviating poverty, generating incomes and employment, assuring food security and sustaining a buoyant domestic market for industry and services, a wide array of initiatives have been taken to promote the flow of agricultural credit and strengthen the rural economy. All the public sector banks have been advised to prepare Special Agricultural Credit Plans.Aggregate disbursements under the plan increased from Rs.14,808 crore in 1997-98 to Rs.17,788 crore in 1998-99. Other measures include promotional efforts to increase the issue of Kisan Credit Cards, enhanced allocation for Rural Infrastructure Development Fund (RIDF), widening of the scope of RIDF to allow lending to Gram Panchayats, Self Help Group and other eligible organisations for implementing village level infrastructure projects, provision of dwelling units in rural areas, especially for those below the poverty line, social security for the poor through the new group insurance scheme of `Janashree Bima Yojana` and empowerment of women.